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Operator: Good day, everyone and welcome to the Tata Motors Limited Earnings Call Q2 Fiscal Year 18. Today's call will be recorded. At this time for opening remarks, I'd like to turn the conference over to your moderator today Mr Jamshed Dadabhoy. Please go ahead.

Jamshed Dadabhoy: Hi, good afternoon and good evening everyone and thank you for joining the Tata Motors 2Q Results Call. From the management side, we are very pleased to have with us Mr Guenter Butschek CEO and MD of Tata Motors, Mr Girish Wagh Head of the CV Business, Mr Vijay Somaiya Head of Treasury and IR and other members of the IR team at Tata Motors. And then representing JLR we also have Mr Ken Gregor CFO and Mr Ben Birgbauer Treasurer. So, with this, I request Mr Somaiya to go through his opening comments for a few minutes and then we can move into Q and A. Over to you Vijay.

Vijay Somaiya: Thanks, Jamshed. Good afternoon, good evening to all the people who have joined the Investor Presentation for Q2 FY18 Results. Investor Presentation has already been uploaded in the website and I'm sure you would have a lot of time to go through it. In the interest of time, I will just briefly take you through the financials and then the floor open for questions answers.

This quarter was a very strong quarter and we have seen a significant improvement in the financial performance. Starting with Tata Motors Consolidated Financial Highlights in Q2FY18, The net revenue grow by 10% to 70,156 crores as compared to 63,577 crores in the previous quarter same period. EBITDA grew at 19% at 9,703 crores with an EBITDA margin of 13.8% as compared to 12.9% EBITDA margin previous period. The EBIT grew to 36% of 4,667 crores with an EBIT margin of 6.7% as compared to 3,429 crores in the

previous quarter last year. And if you look at the profit after tax, we have seen a tripling of the profit after tax from 848 crores to 2,500 crores which is there.

Moving over to Tata Motors standalone financial. This is at page 12 of the presentation. On the back of the stronger sales of commercial vehicles, we have seen a growth of 26% in volumes in Q2. We have a revenue which has grown by 30% to 13,400 crores as compared to 10,300 crores in the previous period. The EBITDA has grown by almost 190% to 971 crores with an EBITDA margin of 7.2% as compared to 336 crores with an EBITDA margin of 3.3%.

The most important figures that we have seen turnaround in the EBIT wherein we have moved from negative 307 crores to a positive 251 crores on the back of the turnaround story which Guenter has been speaking with you from time to time. The profit after tax is much lower at negative 295 crores as compared to negative 631 crores in the previous period earlier.

Moving on to the JLR financials page 16 of the presentation. On the back of the increasing wholesale volumes of 5.75% we have seen the revenue grow 11.5% to £6.3 billion as compared to £5.7 billion in Q2FY17. We have seen a 21% growth in EBITDA to £746 million with an EBITDA margin of 11.8% as compared to £615 million of EBITDA with an EBITDA margin of 10.9% in the previous quarter. The EBIT has seen a growth of 38% to £329 million with an EBIT margin of 5.2% and the profit after tax has become stronger at £308 million as compared to £244 million.

If we look at the way forward for Tata Motors standalone business – sorry for taking you back and forth in the presentation – we refer page 13, if you look to way forward, we will continue to focus on customer engagement and satisfaction. We are concentrating on network expansion to build reach and sales effectiveness. We are driving the rigorous cost reduction to boost the bottom line. We are also carrying out the structural improvement of

supplier base. Our impact design is leading the change in brand perception for passenger vehicles and we have a new corporate set of identity “Connecting Aspirations”.

Moving forward to the JLR way forward page 21 of the presentation. JLR’s strategy continues to achieve sustainable profitable growth by investing proportionately more in new products, technology and manufacturing capacity. The FY18 investment spent is expected to be in the region of 4 to 4.35 billion pounds. JLR’s planning target is to achieve an EBIT margin of 8 to 10 percent in the medium-term. The automotive involved has now become more challenging with the shift to electrification, greater political uncertainty, example, Brexit and softer markets in the UK and US with more competitive conditions generally. As previously indicated, we do expect higher incentive levels and launch and growth cost to continue in FY18 similar to what we are seeing in FY17. There is a seasonality in our product launches and consequently, we have a very strong pipeline of exciting new products which are expected to ramp up in Q4 and beyond. With this I will stop and invite question answers.

Operator: You’d like to open for questions, is that correct?

Jamshed Dadabhoy: Yes, please.

Vijay Somaiya: Yes, please.

Operator: Perfect. So, if you’d like to ask a question today, please press star one – that’s star one – to ask a question. We will take our first question from Kumar Rakesh from BNP. Please go ahead.

Kumar Rakesh: Hi, good evening. Thank you for giving the opportunity. My first question is how do you see contribution margin of electric vehicles in the early part of the cycle in the coming years?

Vijay Somaiya: Kumar, is this for just for JLR or Tata Motors India?

Kumar Rakesh: JLR, sorry.

Vijay Somaiya: Can, Ken, can I request you to.

Ken Gregor: I think, it's – I'm getting an echo, sorry, but let me just try and plough the echo, sorry about it. Definitely the margins on – let's just kill that, sorry. Sorry, to everyone we've got a horrible echo but I think, I've just solved it. Let me start again. Margins on electric vehicles, how do we see them? They bring challenges. I think, that's undoubtedly the case because the cost of the batteries, in particular, are expensive and therefore, relative to fuel tanks and engines. And the unknown factor, of course, is how much and to what extent customers will be willing to pay for the cost of those batteries and I think quite a lot of that is still in front of us. Equally at the same time, it's also the case that internal combustion engine technology gets more expensive in order to meet emissions regulations and give customers the fuel economy that they want so that is also a cost pressure for us.

So, those things are in front of us and we know it and, therefore, a couple of years ago, we launched a internal corporate efficiency programme which I've talked about once or twice in our investor calls called LEAP which was really in the face of twin challenges; one of the cost of electrification and two, the likelihood that margins in China would normalise over time and therefore we set about finding cost efficiencies across our business – material cost efficiencies and other efficiencies as well as hoping to benefit from the efficiencies and scale as our business gets bigger. Or for example, deciding to build factory in Slovakia

that enables us to very a lower cost per manufactured unit. So, we set about developing a plan to drive as much efficiency in the business as we could because we knew that these cost pressures would come.

I think, a fair amount of that's still in front of us to see how those electrified products land in the marketplace and the customer reaction but we are aware of the pressure and that some of the response is what I've just described.

Kumar Rakesh: Alright, thanks for that. My second question was on the gross margin of JLR. When I'm looking at sequentially, QQ it has moved only by 40 basis point. While your volume was significantly higher sequentially, so what was the reason behind that and if I'm looking at it correctly.

Ken Gregor: Yeah, I mean, I think, we – I mean, on the plus side, sequentially, the profit has moved forward. The PBT has moved forward so I'm pleased with that and I'm also pleased with the volume growth that we've had sequentially running quarters. The margin is in EBIT terms margin is actually a fair bit higher. In Q1 we had 1% EBIT margin and in Q2 we've had a 5% EBIT margin per sequential quarters. So, I'm actually, fairly pleased with the result compared to the First Quarter year over year. And year over year, again – I'm talking EBIT margin here – the EBIT margin has moved up from 4% EBIT margin in Quarter 2 of FY17 to 5% in Quarter 2 of FY18. Still lower than we would like if I'm honest but a step forward year over year and quarter to quarter.

Kumar Rakesh: Yeah, but my question was on gross margins, sequentially. On there, we have seen largely flattish margin and the reason behind it?

Ken Gregor: I think, probably it's the effect of volume and the mix relative to, so, yes, we've seen growing volume. And the product mix has broadly kept the gross margin similar. So, I don't think

I've got much to add to be honest. I think, we've got profit growth, volume growth, but the margin's similar – similar volume, similar mix, similar market and product mix.

Kumar Rakesh: Understood, thanks for that.

Operator: We would now take our next question from Sonal Gupta from UBS Securities. But again, as a reminder, if you can all limit yourself to a maximum of two questions.

Sonal Gupta: Sure. Hi, good evening. Thanks for taking my question. Just to begin with. Just can you guide us and tell us what was the FX hedges – hedge losses which were taken in the top line for JLR for this quarter which is included in the revenues I mean?

Ken Gregor: Yes, so, I'll ask Ben Birgbauer my Treasurer who's with me to talk to the FX hedges. Ben.

Ben Birgbauer: Yeah, sure, that I'll talk about. So, there's a slide that's in the back of the TML presentation on FX and commodity effects. So, I'll just first start by overall, year on year, commodities and FX were £64 million positive which is largely explained by commodities good news revaluation and then some revaluation of FX with operational FX and realised hedges broadly offsetting one another. Q on Q, a similar kind of thing. £42 million good news total commodities & FX. Good news Q on Q. That's more than explained by revaluation of commodities because there was quite a bit of appreciation on base metal prices in particular. It was the case that realised FX hedges were quite a bit lower than last quarter sequentially so £343 million versus £454 million in the prior quarter. It probably is worth saying that you should look at kind of some of that was previously realised so you could look at it as being more like a £30 million kind of change and in that period, sequentially, we actually had bad news operational exchange because it actually was the case that the pound actually strengthened somewhat.

I think what I would call out on top of the 343 million that was realized in the quarter is just that we have put in a slide the total hedge reserves so what are the pre-tax hedge losses on the balance sheet remaining. And that was 1.1 billion pounds at the end of the quarter so that's actually down 600 million pounds from the prior quarter and what that reflects is the hedges that matured as well as the fact that the pound apreciated somewhat. So some re-evaluation of that and within that 1.1 billion pounds about 800 million pounds is current portion. So in other words maturing over the next 12 months.

Sonal Gupta: Right sure I understand that. But could you the whole 340 being the revenue or there would be some hedge losses in the cost side as well. So I just wanted to understand how much 343 million.

Ben Birgbauer: Most of it is in the revenues but there would be some in the cost side. I'm just actually trying to look that up.

Ken Gregor: We will just take that as the answer for now correct, we will correct it if we need to. Thank you.

Sonal Gupta: Yeah I was just going to my second question then. I mean the Range Rover and Range Rover Sport will see a major change over and including plug in hybrids coming in. So could you just talk us through I mean do we see a substantial drop in whole sales for these models in this quarter. And then the volumes come back in Q4. So could you talk about how do you see this transition.

Ken Gregor: I think we will see a transition effect in Q3 in our financial Q3 yes due to the model change over to 18 model year which is a refresh of visual refresh into inside and outside of both vehicles plus the addition of the plug in hybrid. I don't think we will see a substantial drop

but we will see somewhat lower wholesales in Q3 and a pick up in Q4 relating to those vehicles.

Sonal Gupta: Okay. Thanks. I will join back the queue.

Operator: We will now take our next question from Wentao Hu from WEI Capital. Please go ahead.

Wentao Hu: Thanks. Thanks for taking my question. To one just looking at the other expense line in the quarter looks like growth. Actually there was not that high and I think lower than what I was expecting in a quarter where you had a Velar launch. And presumably some large costs there could just kind of talk through kind of what all the other expenses line in the quarter and then the second question just on your depreciation and amortization. Could you give some colour on what to expect in the next two quarters and in terms of the D&A trend.

Ken Gregor: Yes on the other expenses it's fair to say that through that lines the hedged losses that we just then just popped back is running through that line and therefore the lower hedged losses year over year, that Ben just described is causing the other expense line to be lower year over year and maybe hiding some of the underlying higher cost in launch costs and other related costs that feature is still there I'm afraid. But masked a bit by the lower affects hedge losses. Sorry your second question was.

Wentao Hu: Depreciation and amortization is the trend to expect over the next two quarters.

Ken Gregor: I mean that continued year on year growth is what we should expect to see so similar year on year growth to what we've seen in Q2 should be expecting Q3 because the same drivers have their year to year versus this time last year we've launched a new discovery versus the old discovery that we launched in discovery in 2004 to be depreciated by the time we launched the new one.

We've launched an all new model with Range Rover Velar. We've also launching the Jaguar e pace and we've also got the 18 model year that will be launched on Range Rover, Range Rover Sports. So we've got lots of new products coming which is great or the business in the fullness of time but it does bring with it launch cost and also brings with it a growth in depreciation and amortization. So we should look to see that in Q3 also.

Wentao Hu: And just a quick follow up on the other expenses. If I look at the compares and just quarter on quarter because I think from the first quarter of fiscal 18 you have also moved to sort of restated basis where you are netting most realised have had hedging losses out of revenue. So if you look quarter on quarter there also seems to be a decline in other expenses as an extended revenue of about 100 bips. Is there any commentary that you could offer on the trend quarter on quarter.

Ken Gregor: There is there is also some year to year reduction in warranty expenses running through that line which as well as relating to changes in re-evaluation of some working capital foreign exchange balances. So you have got some elements running through there. There's one or two accounting items running through there. Also that has given us a little bit of good news. It's funny that I mean there's not necessarily anything in it. There's not one thing that I think is maybe particularly notable other than the favourable movement in the realized foreign exchange.

Wentao Hu: Understood. Thank you.

Operator: We will now take our next question. From Rakesh Jhunjhunwala from Rare Enterprisers. Again ladies and gentlemen as a reminder. Please limit yourself to two questions. Thank you.

Rakesh Jhunjhunwala: Good evening. See my question is that you have incurred about 1.12 billion of foreign exchange hedge loses. Right, now next year you have the rated which you have hedged will come down, and the pound has come up in value. For this quarter year you have hedge losses aggregate of 1.4. As the time passes the hedge rate goes down to 1.3, 1.29 and the value of pound goes up. That does mean that next year if the currency rate remain here, your hedge losses will substantially lower?

Ken Gregor: The short answer is yes if I referred you to the page that Ben was describing which is the back up page somewhat It has the bottom two lines on the page not the exchange rate but the lines that have title total pre-tax hedged Reserve and current portion of hedge Reserve. What you see there is if you just the total pre-tax hedge Reserve is 1092 that is 1 billion and 92 million pounds is the outstanding present value at today's exchange rates of the hedge losses we have still to run through over the next couple of years. If you just moved across that chart to what it was one year ago, one year ago that was 2.4 billion pounds. So in other words you can see that for two reasons the size of the outstanding hedge losses is reducing just as you describe and it has reduced for two reasons. One because the passage of time means that we work through this hedge position quarter by quarter and two because the exchange rates have changed also compared to the prior year which means that the value of the outstanding hedge losses has actually reduced also a bit because of exchange rate.

Rakesh Jhunjhunwala: What 1.34?

Ken Gregor: What do you mean?

Rakesh Jhunjhunwala: 1.34?

Ken Gregor: 1.34 yes, on the pound to the dollar yes.

Rakesh Jhunjhunwala: Right, that means

Ken Gregor: We have also shown. Sorry just to finish. We've also shown there underneath the 1092 we've shown the current portion and that's 793 million is what we expect that these exchange rates to mature over the next 12 months.

Rakesh Jhunjhunwala: Right so it is substantially lower. Will the previous year more has matured no? in terms of being what they are. Your hedge loses should be substantially low.

Ken Gregor: Correct. If they were where they are.

Rakesh Jhunjhunwala: That's a very big plus for you. Profit where cash flows.

Ken Gregor: Yeah. But I think the one thing I'd just disqualify is that to the extent exchange rates change can be bad news on the operating side as well. So it's always been the case that the hedges have balanced start against operating exposure. So if the pound goes up then we'll get good news on the hedges, but bad news on the operating exposure.

Rakesh Jhunjhunwala: No. no but your operating income to the exchange your hedge whether you take as foreign way or you take it out from the revenue. Your income is the amount you hedged, at 70%, at 1.35. so whatever you have adjusted, the real revenue is 1.35 no? so your hedges are at lower rate. The real revenue has?

Ken Gregor: Yes. You're correct in principle. We are putting new hedges in place. The new hedges and the new hedges we put in are basically related to today's exchange rates. Yes.

Rakesh Jhunjhunwala: Right, you have double running, as the time has come down, the time has passed, your hedge some at lower rate. And actually that means the fall in the value of a pound will really fully benefit you only next year, when your hedges are all realised. Am I right?

Ben Birgbauer: Sorry, our line broke, but we are back.

Rakesh Jhunjhunwala: Yeah, so generally the increase in the value of the pound is a fact that your heges are at a lower rate so the pound to the dollar, you should have great advantage next year, if exchange rates lie where they are. They can of course change.

Ken Gregor: Yes in principle the lower hedges is a positive factor for us next year. Yes.

Rakesh Jhunjhunwala: There are some broke reports about what the hedges are and what rates they are. At this rate it should be a difference of billion pounds next year, compared to what you provide this year. I got some broker reports.

Ken Gregor: I think all we can say is that the value of the hedges on the book at the end of the period are the numbers that are stated on the schedule.

Rakesh Jhunjhunwala: Much lower, okay sir thank you.

Ken Gregor: Thank you.

Operator: We will now take our next question from Robin Zhu from Bernstein. Please go ahead.

Robin: Thanks for your time. Just two questions please. Firstly, just wanted to get your thoughts on the cost of the EV adoption or sort of electrification of the fleet over the next couple of years. You may be aware that some luxury car manufacturers at recent company events have guided down my margins by 2%. Basically, to reflects electrification. You know I think

in the past we have discussed some of these costs may be disproportionate for you or not depending on what your strategy is. But just wanted to get your thoughts on sort of the margin progression and the impact our view is over the next three years. One second question just specifically on the UK. I mean we've seen a couple of the big UK dealers report Q3 earnings that have been say less than satisfactory from what the market certainly expected. Does that reflect anything related to your views on the UK market. Where do you get the UK markets to go in the next few years in segments that you played. Thank you.

Ken Gregor: So, I mean, starting with the UK market, yeah, the UK market's been down since April, which has been tough. October – I think year to date it's – in Q2 it was down about 9%, in October it was down about 12%. So unfortunately the UK market reduction seems to have accelerated somewhat through October. You know, that started off back in April and May with perhaps a bit of a hangover from vehicle excise duty changes, but it does seem to have continued into a very solid trend and our sales have been lower as a result in Q2 and in October we've been affected by that.

How do we feel about it going forward? I think we expect that UK market to continue to be lower year on year for the next six months or so until it works out the full year reduction. Where it goes after that, I don't know, honestly. I think it clearly depends on how the overall economic situation in the UK pans out with all of the Brexit concerns, impact of inflation and interest rate rises on consumer debt, etc. – modest though those interest rate rise was, I think there's uncertainty for sure.

The positive thing for us is we do have new products and therefore, with the new Range Rover, the Velar, and the Jaguar E-Pace, I think those things do give us the possibility of seeking to maintain our market share, grow our market share despite, lower volume. But it is more challenging, it's definitely more challenging, so I think that is the case. And how

it pans out, I think for the next six months I think we should expect to continue to see it down year on year.

For the electrification, to be honest I answered that maybe as best as I could earlier in the call, so I didn't want to repeat all of that. Purely the impact of a growing proportion of battery electric vehicles in our portfolio over time, based on the present cost of battery technology, is likely to produce a drag on margins from that effect by itself, although I wasn't actually going to put a figure to it. As I said, we've been – we've also – we knew that would happen, we know that's likely to happen and therefore hence we've been working on all the cost efficiency measures that I described internally to seek to find ways of offsetting that cost pressure. And I think the other thing is it will also depend on the pricing levels for battery electric vehicles going forward and consumer willingness to pay for the technology that's in the vehicles. And some of that's – you know, much of that's still in front of us, to be honest.

But, you know, do I think it's a pressure? Yes. Are we aware of it? Yes. And are we seeking to take actions internally to offset it? Yes.

Speaker: Cool, got it. Thank you.

Operator: We will now take our next question from Jinesh Gandhi from MOSL. Please go ahead.

Jinesh Gandhi: Hi sir. My question pertains to India business. Firstly, we have seen in this quarter has been a significant increase in RM cost despite improving our mix towards MHCV. So, is it just a reflection of the commodity prices, or have we seen significant increase in discounting?

Vijay Somaiya: Jinesh, I think you need to – because of the pre-GST and post-GST scenario, you need to look at the RM and excise duty as a line together and if you add that on you will see that there's a reduction in material cost by one percentage point. Because of the change in the indirect tax, you should not see the two line items separately.

Jinesh Gandhi: Okay, so the negative excise duty line item needs to be addressed with RM cost, that's what you're saying?

Vijay Somaiya: Yes. If you want the comparable, if you look at Q1 numbers also you'll need to add the RM plus excise duty line.

Let me explain the negative excise duty. Typically, under a pre-GST scenario when we were – you know, as you are aware, excise duty is charged on the manufacture of goods so whenever you had finished goods and you were having that on the inventory, the inventory cost included the excise duty. Post 1 July, there is no excise duty being applicable, so the line which you are seeing for 534 rupees crores is a reversal of excise duty which was loaded in the inventory on 30 June. And the corresponding impact is in the change in inventory which is there.

Jinesh Gandhi: Understood, understood. But how has been the discounting for commercial vehicles in this quarter vis-à-vis Q1?

Girish Wagh: If you look at it at the industry level, we have started getting this independent assessment done on whatever kind of discounting which is happening. If we compare with last year, the discounting has actually gone up by around 15–20% at an industry level and this is post the BS4 pricing increase.

Now, as far as our position in that is concerned, I think we – and this has come out of our study as well as interactions with the customers – we are generally ending up paying less discount as compared to the competition. So, from that perspective, in terms of realisation we do have a premium and this is – if I may explain, is coming from better acceptance of our products and the technology in medium and heavy commercial vehicles. So, as you know, we have come out with the catalytic reduction technology and very clearly the customers are looking at the total cost of ownership over the lifecycle and not only the initial cost, as also what other value-added services that we're providing. And when they look at the overall package I think they are preferring us, and with respect to that therefore they are also giving us the kind of premium that we're earning.

Jinesh Gandhi: Okay. But then compared with the first quarter, has it come further down or they will be stable at around these levels?

Girish Wagh: Yes, as compared to first quarter the discounts have gone up to some extent in Q2. Of course, as you know, Q1 the volumes are pretty low. In Q2, the bulk of the supply chain constraints have been removed and therefore will come back to the other kind of competitor institutions, so the discounts have gone up a bit.

Jinesh Gandhi: Okay. And lastly, other expenses in the standalone business has seen a significant reduction have been relatively stable despite increasing volume. So which areas have we been addressing to control cost or reduce cost and how much of this is sustainable?

Vijay Somaiya: I think on the other expenses reduction piece, when we started this quarter we took a target to reduce the cost across all the heads. So, the material cost of course was the most important and largest cost head, so there is a significant amount of action which is happening there in terms of cost reduction. But we also looked at all other costs, the

variable conversion elements as well as the fixed conversion elements, as well as other expenses. So across all the cost trends, there has been a lot of activity to reduce the burden, so to say. In terms of other expenses, it is about – kind of we have taken stretch targets and tried to maintain the overall expenses within that.

Jinesh Gandhi: Okay, so there is nothing gone up in this quarter as such.

Vijay Somaiya: No, it is not.

Jinesh Gandhi: Okay, and our target of Black for FY18 is well on track?

Vijay Somaiya: Sorry, come again?

Jinesh Gandhi: Black for FY18, is that on track?

Guenter Butschek: Yeah, we are generally well on track as far as our commitments on the turnaround targets are concerned, but I would like to repeat what I have mentioned when we met for the last time at least with some of you face-to-face, that our turnaround is effectively built on two pillars. One is to begin with cost reduction across the entire organisation, as already mentioned by Girish, where we have covered all cost categories where we have started to focus on all of the products in order to structurally and sustainably improve our cost competitiveness. The other pillar is actually the volume increase, or what we call the sales enhancement, where, we with the lower cost reduction – with the cost reduction we've been able to improve on the contribution margin times the volume commitment we have given in order to grow. But on the other side also, in order to reclaim some of the market share to Tata Motors, where we have been very successful in the second quarter and we have really demonstrated a swing in volume, market share, as well as in the financials, as you have

seen. This is a combination which we are going to further focus and drive in the second half of the year.

But as much as the cost development is under our control, we have a rich pipeline of further cost reduction opportunities, in particular on the product level, to further improve on the contribution margin. The volume side is subject to the further market development. Before you ask the question, our general view on the market is pretty positive due to the stimulus provided by the government on construction infrastructure and also by initiatives on rated payload. So, therefore, on the basis of all our market activation and customer engagement in the last couple of weeks, we are pretty positive that the momentum we have seen on the demand side, also on the back of our refreshed product portfolio in CV as well as in PV, is going to give us the opportunity to actually build on this market opportunity and to actually make a significant step forward.

But at the end of the day, how far we get and how close we actually get to what you call breakeven is largely subject to the further volume development where we need to see, month by month and quarter by quarter, how the market is going to respond and further develop. We are a little bit cautious, as you can imagine on the basis of last year's experience, because whenever we thought that we actually have enjoyed some tailwinds, we were actually hit by another strong headwind, cyclone-like, hurricane-like kind of event. So therefore, let's be cautiously optimistic as far as the remainder of the fiscal year '17/'18 is concerned.

Jinesh Gandhi: Understood. And lastly, have you taken any price increase in the commercial vehicles business in Q2 or in October/November?

Vijay Somaiya: Correct, yes. Yes, in the month of October we have taken an increase in the commercial vehicles by around 1%. By around 1%.

Jinesh Gandhi: Understood. Thank you, I'll come back in the queue.

Operator: Due to time restrictions we have only time for one more question, so we will take our last question today from Kapil Singh from Nomura. Please go ahead.

Kapil Singh: Yeah, hi there. My first question pertains to JLR. We have an EBIT margin outlook of 8–10%, so can you help us understand what are the factors that lead us to that? And particularly if you can throw some light on the fact that this would factor in some kind of volume growth, so would it be like double-digit volume growth that you expect over this period of medium-term?

Second, have you already factored in the cost that you were talking about vis-à-vis where it may be initially margin dilutive?

Third, what is the potential of the cost reduction programme that you are looking at? Have you identified any potential from which – you can derive from this programme over a period of time? Thanks.

Ken Gregor: I think some of those are very big questions that I'm not sure I can – we've got time for all of today, to get into all the detail of. But let me just talk about a few of the factors. Yes, our medium-term aim is I think always to have an EBIT margin in the 8–10 range. That's what our premium competitors do and it's therefore what we would wish to achieve – I'm sorry, we're getting interference on the line – in the medium-term also. Apologies for that, we just got a bit of interference.

What are the factors that will help us get there? Clearly volume growth is part of it and the new model introductions that we plan to make should help us benefit from the leverage,

operating leverage that gives us the opportunity to improve margins. We also are working on the cost efficiencies; I'm not sure I can put a figure on it though, to be honest, but I could describe some of the things that we are doing.

We are – I mentioned we're launching a plant in Slovakia that enables us to reduce the per unit cost of every vehicle we produce there versus what we would have produced in the UK by circa a couple of thousand pounds per unit, which may not sound a lot, but is quite significant in terms of the margin impact for those vehicles produced there. Now, we launch that plant in 2018 – this time next year and it will ramp up its volume through 2019, through 2020. So, that's in effect a positive effect for us that will build up over time. We made changes to our pension scheme, where we made a – changed the basis of the defined benefit scheme that reduced the cost of that relative to what it would have otherwise been. So that's – these are just examples and we are targeting significant material cost reductions this year and setting ourselves some very ambitious targets for our future material costs and our future vehicle programmes in the coming years. So, those are things that we also hope will, in the fullness of time, help contribute to a stronger margin performance than we're presently achieving.

Those are all the positive things. There are lots of headwinds, it’s fair to say. A couple of our callers have also already talked about the impact of electrified vehicles; that’s undoubtedly a headwind. And we've also seen – over the course of the last year we've seen more competitive market conditions that has caused us to increase the level of variable marketing expense or incentive spending year over year. So, I wouldn't want to just talk about the positive things; I ought to balance it out by talking about some of the headwinds. But our target remains our target and driving profitable volume growth through those new product introductions is what we will continue to do.

Kapil Singh: Okay, and this does include the cost increases for EVs as well?

Ken Gregor: Yes. I mean, all of that together is what we are wrestling with, yes. I mean, clearly we know we've got those EVs and the uncertainty that that brings, but it's all part of the mix of the business that we are planning for.

Kapil Singh: Okay. And are we looking at something like a double-digit volume growth for this year, or any thoughts on how that develops? Because some of the models like Discovery and XE, we have seen pretty soft numbers in recent months. So, your thoughts on that, what’s the plan there?

Ken Gregor: For this year?

Kapil Singh: Yes, please.

Ken Gregor: In terms of volumes, is it?

Kapil Singh: Yes.

Ken Gregor: I think we've got the opportunity for a stronger second half relative to the first half in volume and profitability terms. In particular Q4, seasonally that tends to be a stronger quarter for us and we've got the model launches that I've talked about giving us the opportunity for volume growth in Q4. So, we’re I would say – a bit like Guenter – cautiously optimistic about a stronger second half, but in particular I'm really talking about Q4 I would say.

Up against that, undoubtedly it is the case that we see more challenging market conditions around us right now. We've talked about the UK for example already, but I could have also talked about the US market, which – the overall industry in the US market is down year over year also and the European market is facing challenges relating to the willingness of

customers to consider buying diesel products. So, we've got – we can't control the market, so that will throw at us what it decides to throw at us. From our point of view, we remain very focussed on launching exciting new products. That's the best antidote to challenging market conditions, so that's what we will continue to do.

Kapil Singh: Right. I wish you all the best. Thanks.

Ken Gregor: Thank you.

Operator: Okay, so I will now turn the call back to your hosts for any additional or closing remarks.

Vijay Somaiya: We have no further comments from the questions. In case we have not been able to take some of your questions, please reach out directly to us and we will provide you the answers that you seek. Thank you everyone.

Operator: That will conclude today's conference call. Thank you for your participation. Ladies and gentlemen, you may now disconnect.